

Message Text

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ACTION ARA-14

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TAGS: ECON, EINV, ENRG, HO

SUBJ: MINISTER OF ECONOMY DISCUSSES PETROLEUM, PRIVATE INVESTMENT

SUMMARY: HONDURAS NEW ECONMIN DR. BENJAMIN VILLANUEVA CALLED ON ME THIS WEEK AND DISCUSSED PROSPECTS FOR EARLY RESOLUTION OF THE TEXACO REFINERY'S COST-PRICE SQUEEZE PROBLEMS, HONDURAS' OIL EXPLORATION PROGRAM AND A GOH DESIRE TO STIMULATE US INVESTOR INTEREST IN HONDURAS. HE REQUESTED EMBASSY AND DEPARTMENT ASSISTANCE IN LOCATING AN EARLY 1970'S REPORT ALLEGEDLY AFFIRMING HONDURAS' CAPABILITY TO PRODUCE 50,000 BARRELS OF CRUDE PIL DAILY AND IN PROMOTING US VENTURES HERE. END SUMMARY

1. DR. BENJAMIN VILLANUEVA, HONDURAS MINISTER OF ECONOMY, VISITED ME APRIL 5 OSTENSIBLY FOR A COURTESY CALL. JUDGING FROM THE URGENCY OF HIS REQUEST FOR AN APPOINTMENT AND THE IMPORTANCE OF MATTERS HE RAISED, I BELIEVE IT WAS MORE THAN ROUTINE. I THEREFORE HOPE APPROPRIATE OFFICES IN THE DEPARTMENT WILL BE ABLE TO RESPOND TO QUESTIONS ARISING ON PETROLEUM AND US INVESTMENT DESCRIBED BELOW (PARAS 3 & 4). I WOULD LIKE TO GIVE HIM ANSWERS ON HIS RETURN TO HONDURAS IN LATE APRIL.

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2. VILLANUEVA, WHO HAS BEEN IN OFFICE ONLY THREE MONTHS, FIRST OBSERVED THAT HIS MINISTRY SEEMED TO PREOCCUPIED WITH ECONOMIC PROBLEMS, SUCH AS PETROLEUM SUPPLY AND PRICING, MEAT QUOTA AND OTHER COMMODITY PROBLEMS. HE THOUGHT WE WOULD BE INTERESTED IN KNOWING THAT AS A RESULT OF RECENT RENEWED EFFORTS, MODIFICATIONS IN HONDURAS' INTERNAL PRICING OF PETROLEUM PRODUCTS WERE BEING WORKED OUT WHICH COULD HELP EASE THE COST-PRICE SQUEEZE WHICH HAS

LONG PLAGUED THE TEXACO REFINERY, HERE. (TEXACO'S DIFFICULTIES DUE TO RISING OIL IMPORT COSTS, PRICE CONTROLS ON OIL PRODUCTS, THE ABSENCE OF AUTOMATIC PRICE ADJUSTMENTS AND CONSEQUENT FINANCIAL LOSSES HAVE BEEN THE SUBJECT OF SEVERAL EMBASSY CABLES IN RECENT YEARS. WITH THE CHANGE OF TEXACO MANAGEMENT, HERE, AND THE ADVENT OF A NEW MINISTER, WE HAD HOPED FOR NEW EFFORTS TO RESOLVE THIS OLD PROBLEM.)

3. THE MINISTER NEXT REFERRED TO HONDURAS' HOPES FOR A DISCOVERY OF COMMERCIAL PETROLEUM DEPOSITS UNDER AN EXPLORATION PROGRAM WHICH BEGINS THIS YEAR. UNDER CONCESSION CONTRACTS AWARDED TO ESSO AND A TEXACO/AMERADA-HESS GROUP RECENTLY (TEGUCIGALPA A-07) THESE COMPANIES ARE EXPECTED TO INVEST ABOUT \$15 MILLION IN SEISMIC WORK AND THE EXPLORATORY DRILLING IN OFFSHORE AREAS. DR. VILLANUEVA CITED LOCAL PRESS ACCOUNTS APPEARING IN MARCH 1978, ACCORDING TO WHICH A U.S. OIL COMPANY HAD PREPARED A REPORT AFFIRMING THAT ON THE BASIS OF EXPLORATORY DRILLING DONE BY THE EARLY 1970'S HONDURAS COULD PRODUCE 50,000 BARRELS OF CRUDE DAILY. THESE ACCOUNTS ALLEGED THAT DR. JAIME RAMIRIZ HAD SEEN THIS REPORT WHILE HE WAS HONDURAN CONSUL IN NEW ORLEANS 9 YEARS AGO AND THAT THE US GOVERNMENT EITHER HAD A COPY OF THE REPORT OR KNEW OF ITS EXISTENCE. THE PRESS INFERRED THAT WHEN OIL WAS FOUND IN THIS EARLIER DRILLING, THE WELLS WERE CAPPED, EXPLOITATION DEFERRED, AND INFORMATION KEPT SECRET. THE MINISTER REQUESTED ASSISTANCE IN SECURING A COPY OF THIS OLD REPORT. THE EMBASSY ECONOFF POINTED OUT THAT INCREASED SPECULATION STEMMING FROM A LIMITED OFFICIAL USE

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STEP-UP IN EXPLORATION COMMONLY GENERATES DISTORTED ACCOUNTS OF OIL PROSPECTS AND OF RESULTS OF PRIOR DRILLING. DR. VILLANUEVA ACKNOWLEDGED THAT THIS MIGHT EXPLAIN LAST MONTH'S SPECULATION ABOUT THE OLD REPORT. HE ADDED, HOWEVER, THAT IN VIEW OF GOH KNOWLEDGE OF THE EXISTENCE OF SUCH A REPORT--NOW APPARENTLY LOST--HE HOPED THE EMBASSY COULD, WITH THE DEPARTMENT'S HELP, ASSIST IN LOCATING A COPY.

4. VILLANUEVA THEN STATED HONDURAS' DESIRE TO PROMOTE FOREIGN PRIVATE INVESTMENT AND, AS A FIRST STEP, TO INVITE A US INVESTMENT MISSION. HE EXPLAINED THAT FOLLOWING A CONVERSATION I HAD LAST WEEK WITH CHIEF OF STATE GENERAL MELGAR, IN WHICH I EXPRESSED INTEREST IN SUPPORTING US BUSINESS VENTURES, HERE, THE LATTER HAD ASKED CESAR BATRES (THE GENERAL'S CLOSEST ADVISOR), DR. BUESO (CENTRAL BANK PRESIDENT) AND HIMSELF TO STEP UP EFFORTS TO ATTRACT FOREIGN INVESTMENT. THE ECONOFF DESCRIBED THE DECEMBER 1977 INVESTMENT SEMINAR UNDER OPIC AUSPICES AND ATTENDED BY A 19-MAN HONDURAN DELEGATION AND REPRESENTATIVES OF 35 US FIRMS IN WASHINGTON. HE SUGGESTED THAT THIS MIGHT BE AN OPPORTUNE TIME FOR A FOLLOW-UP MISSION BY PROSPECTIVE US INVESTORS TO VISIT HONDURAS AND OFFERED TO PROBE FOR INTEREST IN THIS POSSIBILITY. THE DEPARTMENT IS REQUESTED TO CONTACT OPIC FOR A SUM-

MARY OF RESULTS OF THE DECEMBER SEMINAR AND FOR COMMENTS ON PRO-
SPECTS FOR A SMALL INVESTMENT MISSION DURING 1978.
JARAMILLO

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